ad Co. corp

Annual Report

AEROSPACE AND TRANSPORTATION

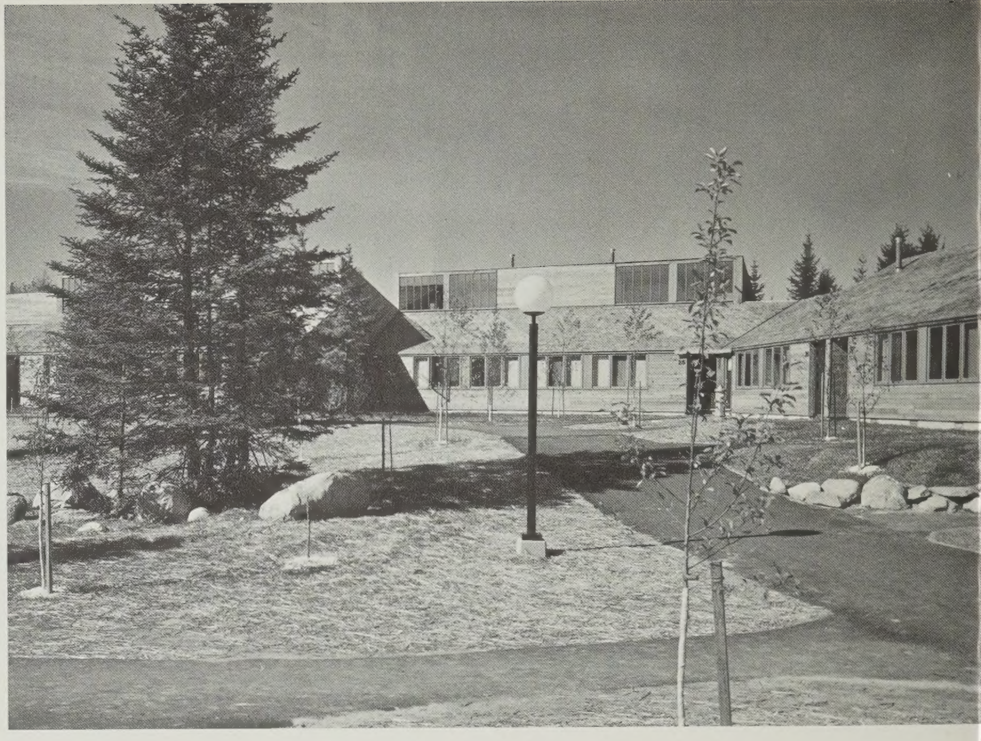
RADAR

SONAR

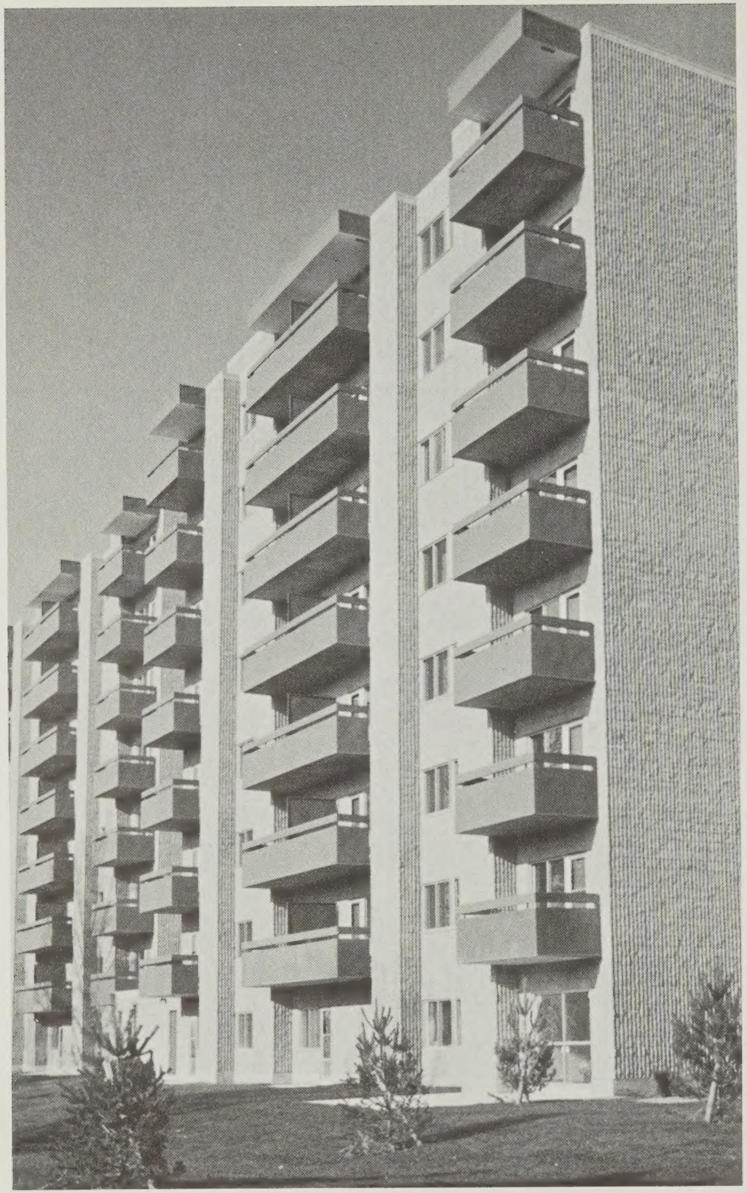
RONARK DEVELOPMENTS REAL ESTATE

FLEET manufacturing limited

1972



Student Housing,
North Bay,
Ontario.



Senior Citizens Building,
Wharncliffe Road,
London, Ontario.

FLEET manufacturing limited

RONARK developments

DIRECTORS

Ronald K. Fraser	President Fleet Manufacturing Limited
Samuel Lax	President Lax Steel Limited, Hamilton
C. Norman Lucas	President and Chief Executive Officer Dynamic Industries Inc., Quebec
Donald G. MacDonald	Vice President and General Manager Ronark Developments, Hamilton
D. Donald C. McGeachy	Director and Consultant London
G. Philip Morphy	Corporate Vice President Fleet Manufacturing Limited
J. Frederick Taylor	Consultant J. F. Taylor and Associates Limited Ottawa

AUDITORS

Clarkson, Gordon and Company,
Hamilton, Ontario

BANKERS

The Toronto Dominion Bank

TRANSFER AGENTS

Guaranty Trust Company
of Canada,
Toronto, Ontario
Montreal, Quebec
Vancouver, British Columbia

OFFICERS

CORPORATE

Ronald K. Fraser	President
G. Philip Morphy	Corporate Vice President
E. Delbert Hickey	Vice President Legal
Jean E. Spacca	Secretary

MANUFACTURING DIVISION

Gordon B. Sampson	Vice President and General Manager
Leonard Maloney	Director of Manufacturing
Alexander J. Cook	Director of Marketing
Roy Dear	Treasurer and Controller

REAL ESTATE DIVISION **Ronark Developments**

Donald G. MacDonald	Vice President and General Manager
Donald G. Ness	Senior Vice President
Frank T. Wilkinson	Vice President, Land Development and Sales
Clifford J. Bryson	Construction Manager
William C. Hesler	Treasurer and Controller

HEAD OFFICE

20 Hughson Street South, Hamilton, Ontario

MAILING ADDRESS

P. O. Box 800, Hamilton, Ontario

FLEET manufacturing limited

RONARK developments

FINANCIAL HIGHLIGHTS

(in thousands of dollars except for per share information)

	Twelve months ended June 30 1972	Three months ended September 30 1972	Fifteen months ended September 30 1972	Year ended June 30 1971
SALES:				
Manufacturing	$ 6,129	$1,450	$ 7,579	$ 4,562
Real estate group	13,692	2,636	16,328	13,017
	$19,821	$4,086	$23,907	$17,579
INCOME (LOSS) FOR THE PERIOD	$ 799	$ (21)	$ 778	$ 209
EARNINGS (LOSS) PER COMMON SHARE:				
Based on weighted average number of shares outstanding	$ .37	$ (.01)	$ .36	$ .09
After giving effect to conversion privileges of the preferred shares	$ .32	$ (.01)	$ .31	$ .08
WORKING CAPITAL			$ 3,819	$ 2,387
NEW FACILITIES AND EQUIPMENT			$ 65	$ 104
LONG TERM DEBT			$ 3,003	$ 2,180
SHAREHOLDERS' EQUITY			$ 4,099	$ 3,408
BOOK VALUE PER COMMON SHARE AT YEAR END				
Before giving effect to conversion privileges of the preferred shares			$ 1.72	$ 1.41
After giving effect to conversion privileges of the preferred shares			$ 1.62	$ 1.33

FLEET manufacturing limited

PRESIDENT'S LETTER

TO THE SHAREHOLDERS:

The fiscal year end is being changed from June 30 to September 30 primarily to remove the conflict between our plant holiday period and the year end inventory and accounting procedures. The results are, therefore, being presented for a fifteen month period.

12 MONTHS ENDED JUNE 30, 1972

Sales increased by 2.2 million to 19.8 million from 17.6 million for last year while consolidated net income rose to $799,000 from $209,000 of which $493,000 and $99,000 respectively were treated as extraordinary items. This distinction has been made to indicate the non-repetitive nature of the income from two affiliated companies whose development has been virtually completed.

Ronark Developments, the real estate division, produced a substantial increase in profit on contract sales and completed the construction and sale of two condominium projects of 234 units in London and Hamilton during the year. Inclusive of signed contracts, letters of intent and corporate commitments, the contract backlog was 12.6 million at June 30.

The manufacturing division benefited from increased activity and was able to reduce its loss significantly from the levels of the two previous years. The manufacture of the third component, the aft engine cowling for the Lockheed L1011 TriStar, commenced at mid year.

The increase in the order backlog from 8.2 million last year to 19.4 million at the year end is attributable primarily to the initial purchase orders received from Lockheed.

QUARTER ENDED SEPTEMBER 30, 1972

On sales of 4.1 million compared with 3.7 million for the first quarter of last year, the Company sustained a net loss of $21,000 compared with a net income of $21,000 (unaudited) for the same period last year.

RONARK developments

FLEET manufacturing limited

The results for the quarter are not representative of the results for the coming year. Most of the manufacturing loss was caused by a cost overrun on a prototype contract because of technical difficulties beyond our control. Application has been made to the government authorities for a contract price amendment.

The manufacturing contract backlog was unchanged at 19.4 million at September 30 compared to 9.5 million for the preceding year. Just recently, the Federal Government authorized the prototype manufacture of the de Havilland DHC7 STOL Aircraft and Fleet expects to commence work on the program in December.

Bell Aerospace, Canada, a division of Textron, has placed a follow-on order for four air cushion barges resulting from the successful introduction of the two prototypes built by Fleet. Also, four barges of a new model have been ordered together with power modules for both series.

The manufacturing division now has labour contracts maturing on September 30, 1974 and is more optimistic of a higher level of activity from current and potential future orders. However, optimism must be tempered by the fact that it is becoming more difficult to achieve productivity sufficient to offset increasing wages and other costs. Also, the finalization of Federal Government policies, including our trade relations with the U.S.A., may well be deferred because of the recent election results.

Ronark Developments, while planning to continue to play a prominent role in contract volume, primarily for Ontario Housing Corporation, is developing an inventory of land for single family and condominium unit sales. Completed acquisitions to date will provide for 1,300 housing units. Also, there are three joint development projects on which basic agreement has been reached. These follow the pattern of the affiliated companies which have contributed so significantly to our results in the past. The backlog at September 30 was 12.2 million inclusive of signed contracts, letters of intent and corporate commitments.

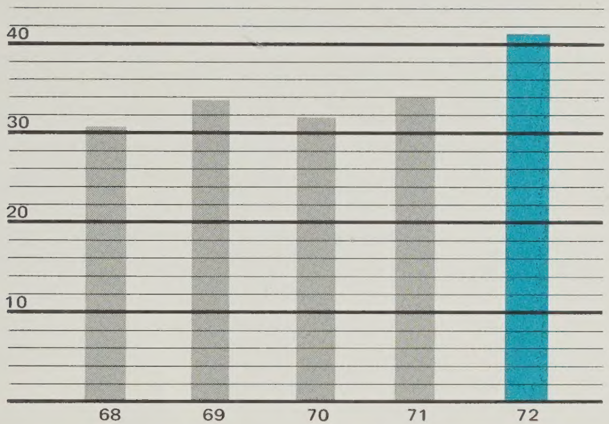
There is every indication that the Company is entering a period of greater stability and growth and the Board of Directors is thankful for the dedication and service not only of those employees who contributed to Ronark's strong position but to those who contributed to the improved results of the manufacturing division.

R. K. Fraser
President

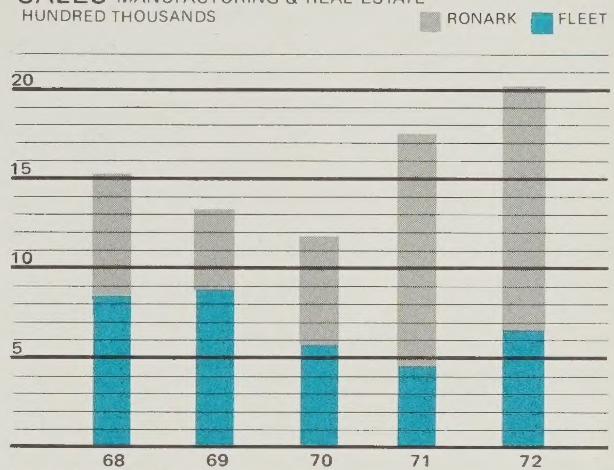
November 6, 1972

RONARK developments

SHAREHOLDERS' EQUITY
HUNDRED THOUSANDS

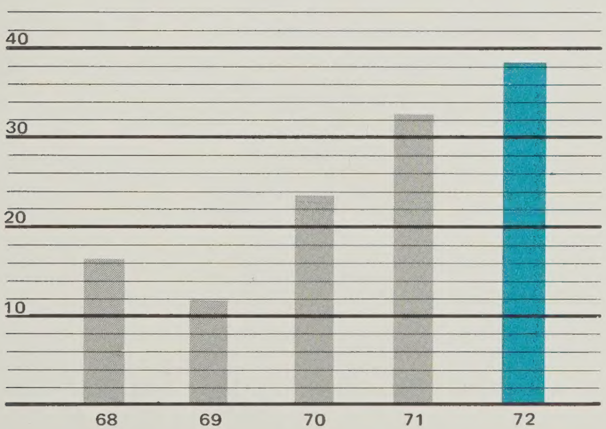


SALES MANUFACTURING & REAL ESTATE
HUNDRED THOUSANDS

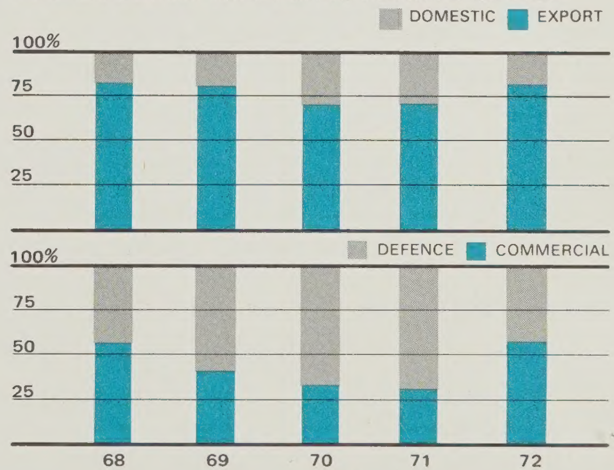


*Oct 1/71 - Sept 30/72

WORKING CAPITAL
HUNDRED THOUSANDS



ANALYSIS OF MANUFACTURING SALES



FLEET manufacturing limited (Incorporated under the laws of Ontario)

RONARK developments a division of FLEET manufacturing limited

CONSOLIDATED BALANCE SHEET

ASSETS	September 30, 1972	June 30, 1971
CURRENT:		
Cash	$ 357	$ 330
Marketable securities at cost which approximates market value	300	
Accounts receivable	2,832	2,144
Current portion of long term receivables		115
Due from affiliated companies	37	62
Inventories (note 3)	3,864	3,704
Prepaid expenses and deposits	88	42
Cash surrender value of life insurance	56	52
Total current assets	7,534	6,449
INVESTMENTS AND LONG TERM RECEIVABLES (note 4)	901	715
FIXED (note 5):		
Land, buildings, machinery and equipment, at cost	3,936	3,907
Less accumulated depreciation	2,518	2,308
	1,418	1,599
DEFERRED CHARGES, less amortization (note 1(c))	964	887
	$10,817	$9,650

On behalf of the Board:

RONALD K. FRASER, Director

G. PHILIP MORPHY, Director

SEPTEMBER 30, 1972 (with comparative figures at June 30, 1971) (In thousands of dollars)

LIABILITIES

	September 30, 1972	June 30, 1971
CURRENT:		
Bank indebtedness (note 6)	$ 280	$1,000
Accounts payable and accrued charges	2,376	2,182
Income and other taxes payable	3	158
Estimated liability to service land sold or held for resale	46	125
Demand notes - payable to affiliated company	320	20
Current instalments on long term debt (note 7)	134	319
Deferred income taxes relating to current assets	556	258
Total current liabilities	3,715	4,062
LONG TERM DEBT (note 7)	3,003	2,180
SHAREHOLDERS' EQUITY:		
Capital stock (note 9) -		
6% cumulative redeemable convertible preference shares with a par value of $10 each:		
Authorized - 32,257 shares		
Issued - 32,257 shares (48,351 in 1971)	322	483
Common shares without nominal or par value:		
Authorized - 5,116,490 shares		
Issued - 2,198,430 (2,037,490 in 1971)	1,918	1,757
	2,240	2,240
Retained earnings	1,859	1,168
	4,099	3,408
	$10,817	$9,650

See accompanying notes to financial statements.

AUDITORS' REPORT

To the Shareholders of Fleet Manufacturing Limited:

We have examined the consolidated balance sheet of Fleet Manufacturing Limited as at September 30, 1972 and the consolidated statements of income and retained earnings for the twelve months ended June 30, 1972 and the three months ended September 30, 1972 and source and application of funds for the fifteen months ended September 30, 1972. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the affiliated companies.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1972 and the results of their operations for the twelve months ended June 30, 1972 and the three months ended September 30, 1972 and the source and application of their funds for the fifteen months ended September 30, 1972 in accordance with generally accepted accounting principles which, except for the restatement of working capital referred to in note 1(c) to the financial statements, were applied on a basis consistent with that of the year ended June 30, 1971.

Clarkson, Gordon & Co.
Chartered Accountants.

Hamilton, Canada.
October 25, 1972.

FLEET manufacturing limited

RONARK developments

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNING

PERIODS ENDED JUNE 30, 1972 AND SEPTEMBER 30, 1972
(with comparative figures for 1971)
(In thousands of dollars)

	Twelve months ended June 30				
	1972				
	Manufacturing	Real estate group	Total	1971 Total	Manufacturing
Sales	$6,129	$13,692	$19,821	$17,579	$1,450
Income (loss) from operations before income taxes	$ (188)	$ 766	$ 578	$ 157	$ (92)
Income taxes	(91)	401	310	72	(46)
Income (loss) before income of affiliated companies	(97)	365	268	85	(46)
Income from operations of affiliated companies		38	38	25	
Income before extraordinary item	(97)	403	306	110	(46)
Gains on sale of properties by affiliated companies		493	493	99	
Net income (loss) for the period	$ (97)	$ 896	799	209	$ (46)
Retained earnings at beginning of period			1,168	959	
			1,967	1,168	
Deduct dividends paid on preference shares - arrears			59		
- current			28		
Retained earnings at end of period			$ 1,880	$ 1,168	
Earnings (loss) per common share after deducting dividend requirements on preference shares (based on the weighted average number of shares outstanding):					
Income before extraordinary item			$ .13	$ .04	
Net income for period			$ .37	$ .09	
Fully diluted earnings per share based on conversion of preference shares at beginning of period:					
Income before extraordinary item			$ .12	$ .04	
Net income for period			$ .32	$ .08	

See accompanying notes to financial statemen

ree months ended September 30		
1972		(Unaudited) 1971
Real estate group	Total	Total
$2,636	$4,086	$3,735
$ 44	$ (48)	$ 23
22	(24)	10
22	(24)	13
3	3	8
25	(21)	21
$ 25	(21)	21
	1,880	1,168
	1,859	1,189
	$1,859	$1,189
	$ (.01)	$ .01
	$ (.01)	$ .01
	$ (.01)	$ .01
	$ (.01)	$ .01

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FIFTEEN MONTH PERIOD ENDED SEPTEMBER 30, 1972
(with comparative figures for twelve months ended June 30, 1971)
(In thousands of dollars)

	September 30, 1972	June 30, 1971 (restated - note 1(c))
SOURCE OF FUNDS:		
Operations -		
Net income for twelve months ended June 30	$ 799	$ 209
Net loss for three months ended September 30	(21)	
	778	209
Depreciation	246	235
Amortization of deferred charges	166	71
Deferred income taxes		(20)
	1,190	495
Increase in long term debt	950	573
Long term receivables repaid	157	170
Reduction in land held for development		23
	2,297	1,261
APPLICATION OF FUNDS:		
New facilities and equipment (net)	65	104
Deferred charges	243	126
Increase in investments in affiliated companies	343	124
Dividends paid	87	
Repayment of long term debt	127	
	865	354
INCREASE IN WORKING CAPITAL	1,432	907
WORKING CAPITAL BEGINNING OF PERIOD	2,387	1,480
WORKING CAPITAL END OF PERIOD	$3,819	$2,387

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1972

(1) **Accounting policies -**

(a) The consolidated financial statements as at September 30, 1972 include the accounts of the company's wholly-owned subsidiaries, Grisenthwaite Construction Company Limited and W.Grisenthwaite Developments Limited. The investments in affiliated companies which are owned to the extent of 50% are not consolidated but are included in the financial statements on the equity basis.

(b) Gross profit on contracts is recorded as follows:

(i) On contracts extending beyond one year billable at a fixed price per unit, the proportion of total estimated gross profit for the entire contract applicable to the number of units shipped.

(ii) On other contracts billable at a fixed price per unit, the actual gross profit applicable to units shipped.

(iii) Other contracts on the percentage of completion method.

Where it is expected that a loss will be incurred on completion, provision is made for the total estimated loss. In the case of contracts extending beyond one year, revisions in cost and profit estimates, which can be significant, are reflected in the accounting period in which the relevant facts become known.

(c) In the case of the Lockheed TriStar program, which will extend over several years, financing, engineering and tooling costs have been deferred in the accounts and are being amortized by charges to income as units are shipped. The amortization rate is based on the program projections of Lockheed Aircraft Corporation for 352 units, of which Lockheed reports is has firm orders requiring 117 units and options requiring a further 67 units. The 1971 figures have been reclassified to conform to the 1972 presentation of these deferred charges as a non-current asset. Engineering and tooling costs applicable to other programs are included in work in process to the extent recoverable.

(d) It is the practice of the company to (1) claim for taxation purposes all costs incurred on real estate contracts in progress less progress billings, and (2) include in taxable income profits on land sales proportionately to proceeds received rather than in the period of sale as is used in the accounts, resulting in a deferment of income taxes otherwise payable, $556,000.

(2) **Change of fiscal year -**

Subsequent to June 30, 1972, the fiscal year end of the company was changed to September 30.

(3) **Inventories -**

Inventories are valued at the lower of cost and net realizable value and consist of the following:

	1972	1971
	(in thousands of dollars)	
Manufacturing:		
Work in progress (after deducting progress payments of $379,000 in 1972 and $492,000 in 1971)	**$2,121**	$1,414
Raw materials and supplies	**648**	612
	2,769	2,026
Real Estate:		
Work in progress (less mortgage financing of $62,000 in 1972 and $1,161,000 in 1971)	**349**	1,250
Land for resale (less mortgage financing in 1972 of $81,000)	**746**	428
	1,095	1,678
	$3,864	$3,704

(4) **Investments and long term receivables:**

This consists of the following:

	1972	1971
	(in thousands of dollars)	
Investment in affiliated companies on the equity basis	**$901**	$558
Amounts due on land sales		257
Residential mortgages receivable		15
	901	830
Less amounts due within one year included in current assets		115
	$901	$715

(5) **Fixed assets —**

Fixed assets consist of the following:

	1972			1971
	Cost	**Accumulated depreciation**	**Net book value**	Net book value
	(in thousands of dollars)			
Manufacturing division:				
Land (approximately 152 acres in Fort Erie)	**$ 41**	**$**	**$ 41**	$ 41
Buildings	**1,415**	**645**	**770**	823
Machinery and equipment	**2,303**	**1,775**	**528**	644
	3,759	**2,420**	**1,339**	1,508
Real estate division:				
Furniture, fixtures, equipment and leasehold improvements	**177**	**98**	**79**	91
	$3,936	**$2,518**	**$1,418**	$1,599

Depreciation is computed as follows:

On diminishing balance —	Buildings	5% or 10%
	Machinery, furniture and equipment	20%
	Automobiles	30%
	On straight-line basis — Leasehold improvements	10%

(6) **Bank indebtedness —**

Bank indebtedness of the manufacturing division is repayable on demand and is secured by a $1,500,000 debenture with a first floating charge on all company property and assets. The real estate division has no bank indebtedness at September 30, 1972.

(7) **Long term debt —**

This consists of the following:

	1972	1971
	(in thousands of dollars)	
Manufacturing —		
Fleet Manufacturing Limited:		
Repayable portion of non-interest bearing federal government assistance payments for purpose of machine tools, due October 2, 1974	$ 233	$ 367
8 1/4% mortgage debenture payable to Ontario Development Corporation for additions to manufacturing plant secured by specific mortgage on the land and buildings, due July 15, 1980	**254**	282

Term bank loan for the financing of the Lockheed TriStar program, due March 31, 1981, guaranteed to the extent of 90% by the General Adjustment Assistance Board and secured by a $3,000,000 debenture with a second floating charge on all company property and assets and a second pledge of accounts receivable and inventories. The bank agreement provides for refinancing and increasing this loan on or before maturity under certain conditions	**2,650**	1,700
	3,137	2,349
Real estate group —		
W. Grisenthwaite Developments Limited:		
7% debentures		150
	3,137	2,499
Less principal repayments due within one year	**134**	319
	$3,003	$2,180

The remaining long term debt requirements payable for the fiscal years 1973 to 1978 are as follows: 1973 - $134,000; 1974 - $261,000; 1975 - $542,000; 1976 - $531,000; 1977 - $534,000.

(8) **Contingent liability —**
In prior years the cost of certain fixed asset additions was reduced by the proceeds of a forgiveable loan from the Ontario Development Corporation in the amount of $218,000. The loan, of which $22,000 has been forgiven at September 30, 1972, is secured by the same mortgage as the 8 1/4% mortgage debenture (note 7). The remainder of $196,000 is forgiveable over five years providing the company continues its present operations.

(9) **Capital stock —**

(a) The 6% preference shares are convertible into common shares on the basis of 10 common shares for 1 preference share up to December 31, 1972. In 1972, 16,094 preference shares were converted into 160,940 common shares. As at September 30, 1972, 322,570 common shares are reserved for possible future conversions.

(b) No provision has been made in the accounts as at September 30, 1972 for arrears of cumulative dividends on preference shares, $5,000.

(10) **Retirement plans —**
During the fifteen month period the company's pension plans for employees in the manufacturing division were amended providing increased past service benefits. The total unamortized past service costs under retirement plans of the company at September 30, 1972, based on estimates by independent actuaries, amounted to $880,000. These costs, which are not included in the accompanying financial statements, are being amortized and charged to operations over the period to 1989.

(11) **Statutory information -**

	Year ended June 30, 1972	Three months ended September 30, 1972
Executive remuneration —		
The aggregate direct remuneration paid or payable by the company and its consolidated subsidiaries to the directors and senior officers of the company as defined by the Business Corporations Act of Ontario	**$320,000**	$58,000
Interest paid —		
Long term debt	**$187,000**	$52,000
Other debt	**79,000**	4,000
	$266,000	$56,000
Depreciation	**$202,000**	$44,000

SUPPLIERS TO:

Aerospace

The de Havilland Aircraft of Canada, Limited
Downsview, Ontario

Douglas Aircraft Company of Canada Limited
Toronto AMF, Ontario

McDonnell Douglas Corporation
Long Beach, California

Grumman Aerospace Corporation
Bethpage, New York

Lockheed California Company
A Division of Lockheed Aircraft Corporation
Burbank, California

Spar Aerospace Products Limited
Toronto, Ontario

Marine—Sonar

Department of Supply and Services
Government of Canada

General Electric Company
Syracuse, New York

Westinghouse Canada Limited
Hamilton, Ontario

Ground Transportation

Bell Aerospace Canada
A Division of Textron Canada Limited
Grand Bend, Ontario

Radar—Telecommunications

Department of Transport
Government of Canada

General Electric Company
Syracuse, New York

Lockheed Electronics Company
Plainfield, New Jersey

Westinghouse Electric Corporation
Defence and Space Centre
Baltimore, Maryland

RONARK developments

a division of FLEET manufacturing limited